

## Message Text

SECRET

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 111340

O R 021705Z JUL 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 7750

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

USMISSION OECD PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T SECTION 1 OF 2 JIDDA 3802

EXDIS

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: YAMANI VIEWS ON ARAMCO, ON OPEC NEGOTIATIONS, ON LEAKS IN  
WASHINGTON, AND ON EXPANSION PLAN

REF: A) STATE 139842; B) JIDDA 3789

SUMMARY: YAMANI, SAUDI MINISTER OF PETROLEUM,  
TOLD THE AMBASSADOR JULY 1 THAT THE QUITO OPEC  
CONFERENCE WAS "BLOODY"; THAT ALL OTHER OPEC COUNTRIES  
HAVE PUSHED FOR DRAMATIC INCREASES IN POSTED  
PRICES AND TAXES. HE DID NOT BELIEVE HE WOULD BE  
ABLE TO HOLD THE LINE MUCH LONGER WITHOUT STRONG

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SUPPORT FROM THE CONSUMERS, NOTABLY THE UNITED STATES.

HE WAS ALARMED AT THE RAPIDITY WITH WHICH HIS CON-  
VERSATIONS IN WASHINGTON HAD BEEN LEAKED TO THE PRESS  
AND WONDERS IF THIS MIGHT NOT BE AN ATTEMPT TO DESTROY  
HIM. YAMANI KNOWS THAT THE ONLY WAY OF DECREASING  
PRICES IS BY INCREASING PRODUCTION. HE BELIEVES THAT  
OTHER OPEC COUNTRIES, WITH INFORMING SAUDI ARABIA,  
HAVE AGREED ON PRODUCTION CUTS. HE PLANS TO COUNTER THIS  
BY A CRASH EXPANSION PROGRAM IN SAUDI ARABIA. HE ASKS  
URGENTLY THAT THIS INFORMATION BE KEPT SECRET AND SAYS THAT  
IF IT APPEARS IN THE PRESS HE VERY LIKELY WILL HAVE TO  
CANCEL HIS PLANS. WE REQUEST THE DEPARTMENT AND OTHER  
POSTS TO GUARD THIS INFORMATION JEALOUSLY, TO DO NOTHING  
TO EMBARRASS YAMANI. WE ALSO WOULD CALL A  
MORATORIUM ON STATEMENTS ABOUT SURPLUS PRODUCTION  
AND THE IMMINENT DISSOLUTION OF OPEC AND COLLAPSE OF OIL  
PRICES. WE ALSO REQUEST THAT A VERY SMALL MEETING OF ONE  
OR TWO AMERICANS, ONE OR TWO EUROPEANS BE HELD IN  
SAUDI ARABIA SOON IN PREPARATION FOR YAMANI'S  
"MINI PRODUCER-CONSUMER CONFERENCE." END SUMMARY.

1. ARAMCO'S FUTURE:

AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM, WHO  
ESCAPED MY MEDICAL GUARDS BRIEFLY, TOLD ME TODAY  
(JULY 1) THAT PRESIDENT GARVIN OF EXXON WILL BE COMING  
TO SAUDI ARABIA SOON TO WORK OUT THE DRAFTS FOR THE  
NEW SAUDI RELATIONSHIP WITH ARAMCO. HE SAID HE HOPED  
TOULAVEERAS OF MOBIL WOULD ALSO COME BECAUSE HE KNEW  
WORKING WITH HIM WOULD BE EASIER (REF B).

2. THE QUITO OPEC MEETING:

YAMANI SAID HE HAD BEEN GIVEN ORDERS BY MY DOCTORS  
NOT TO DISCUSS ANY BUSINESS, SO WOULD GIVE ME COMPLETE  
DETAILS OF HIS MEETINGS IN QUITO, WASHINGTON AND NEW  
YORK WHEN I RETURNED FROM BEIRUT. HOWEVER, AFTER SOME  
WHEELDING HE DID GIVE ME THE FOLLOWING  
INFORMATION WHICH ROUNDED OUT THAT INCLUDED IN REF A:

3. ALL OPEC COUNTRIES AT QUITO EXCEPT SAUDI ARABIA  
FAVORED AN IMMEDIATE INCREASE IN POSTED PRICE TO \$15/BBL  
AND A "SURPLUS PROFITS TAX" FOR THE FIRST TWO QUARTERS  
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OF 1974 OF 87 PERCENT. THE FIRST WOULD HAVE INCREASED  
GOVERNMENT TAKE BY ABOUT \$2.00 AND THE SECOND BY AN  
ADDITIONAL \$3.50. IRAQ IS PUSHING VERY HARD FOR A  
POSTED PRICE, IN 1975, OF \$22-\$25/BBL.

4. YAMANI IS GETTING INCREASINGLY WORRIED ABOUT HIS  
ISOLATION IN OPEC. AMOUZGAR OF IRAN "AND MOST OF THE  
OTHERS" ARE OPENLY ACCUSING HIM AND HIS KING OF BEING

U.S. AGENTS YET HE FEELS HE IS GETTING NO SUPPORT FROM THE UNITED STATES OR FROM ANY OTHER CONSUMER. HE SAID IT SEEMED THAT THE MAJOR CONSUMING COUNTRIES, INCLUDING THE UNITED STATES, ARE ASSUMING THAT SAUDI ARABIA IS FIGHTING THE CONSUMERS' BATTLE, AND THERE IS THEREFORE NOTHING THEY NEED TO DO. THIS ATTITUDE IS FALSE AND DANGEROUS; SAUDI ARABIA CANNOT MAINTAIN ITS POSITION INDEFINITELY BY ITSELF.

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AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

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EXDIS

5. LEAKS OF INFORMATION:

HE REPEATED, IN CONSIDERABLY MORE DETAIL THAN IN REF A, HIS PLEA FOR U.S. AND EUROPEAN PRESSURE ON IRAN AND OTHER OPEC PRODUCERS. BUT HE SAID WHAT DISTURBED HIM EVEN MORE THAN OUR LACK OF RESPONSE TO HIS PLEAS WAS THE "OBVIOUS ATTEMPT BY SOMEONE IN WASHINGTON" TO DESTROY HIM. TWO DAYS AFTER HIS MEETINGS IN

WASHINGTON, HE SAID, HE READ FULL ACCOUNT OF HIS CONVERSATIONS IN THE "NEW YORK TIMES." HE SAID THAT SUCH STORIES ONLY CONFIRM THE OPEC ACCUSATIONS THAT HE IS DOING THE WORK OF THE "IMPERALISTS."

6. YAMANI HAS COMPLAINED TO ME FREQUENTLY IN THE PAST, AS THE DEPARTMENT WELL KNOWS, ABOUT CONSTANT LEAKS FROM THE STATE DEPARTMENT. MY CONVERSATIONS  
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WITH HIM WHICH WERE REPORTED IN THE "WASHINGTON POST," MY CONVERSATIONS WITH THE KING WHICH APPEARED IN THE EVANS AND NOVAK ARTICLE, AND NOW THIS. HE ASKED HOW WE COULD EXPECT HIM TO CONTINUE SPEAKING TO US FRANKLY IF WE FEEL IMPELLED TO PUBLISH EVERYTHING IMMEDIATELY IN OUR PRESS.

7. SAUDI PRODUCTION EXPANSION PLANS:  
I TOLD YAMANI THAT IN OUR TALKS IN WASHINGTON LAST MONTH, WE HAD ELIMINATED FROM OUR PRESENTATION OUR ESTIMATE THAT THERE IS ALREADY A WORLD SURPLUS OF OIL PRODUCING CAPACITY AND THAT BY NEXT YEAR THERE WOULD BE A 20 PERCENT SURPLUS OF CAPACITY OVER DEMAND. HE WAS PLEASED. HE SAID THAT IF THIS HAD BEEN DONE, ABA AL-KHAIL (MINISTER OF STATE FOR FINANCE) AND HISHAM NAZIR (MINISTER OF STATE FOR PLANNING) WOULD HAVE USED THIS INFORMATION TO BLOCK COMPLETELY ANY EXPANSION PLANS FOR ARAMCO.

8. YAMANI SAID THERE WAS NO DOUBT IN HIS MIND - OR ANYONE ELSE'S - THAT THE ONLY WAY WORLD OIL PRICES COULD BE FORCED DOWN WOULD BE BY INCREASING PRODUCTION. EVERY MEMBER OF OPEC UNDERSTOOD THIS AND THERE ARE ALREADY PLANS IN OPEC, TO WHICH HE IS NOT ENTIRELY PRIVY, TO REDUCE PRODUCTION SUBSTANTIALLY TO MAINTAIN THE HIGH PRICES.

9. YAMANI SAID THAT SAUDI ARABIA WOULD COUNTER WITH THIS BY INCREASING ITS OWN PRODUCTION "SUBSTANTIALLY" AND THAT HE HAD JUST (JULY 1) GIVEN JUNGERS (PRESIDENT OF ARAMCO) ORDERS TO EMBARK ON A CRASH PRODUCTION EXPANSION PLAN.

10. HE ASKED URGENTLY THAT THIS INFORMATION BE TIGHTLY HELD; THAT WE STOP TALKING ABOUT SURPLUS OIL IN THE WORLD AND ITS INEVITABLE DOWNWARD PRESSURES ON PRICES. HE ASKED WHETHER WE WERE INTERESTED IN A MOMENTARY FAVORABLE PUBLICITY OR IN RESULTS. HE SAID THAT IF HE READS SHORTLY IN THE "NEW YORK TIMES" OR "WASHINGTON POST" THAT SAUDI ARABIA IS INCREASING PRODUCTION

CAPACITY IN THE FACE OF AN EXISTING WORLD SURPLUS,  
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THE CONSERVATIONISTS IN THE HIGHER PETROLEUM COUNCIL WILL SURELY PREVAIL; HE WILL HAVE TO CANCEL THE ARAMCO EXPANSION PLANS AND MIGHT EVEN HAVE TO REDUCE CURRENT PRODUCTION.

11. YAMANI ALSO SAID THAT HE HAD NO INTENTION OF DESTROYING OPEC; AND ALL OF THE TRIUMPHANT COMMENTS FROM WASHINGTON AND ELSEWHERE ABOUT THE IMMINENT DISSOLUTION OF THAT ORGANIZATION WOULD NOT HELP HIM OR, ULTIMATELY, THE CONSUMERS. HE SAID THAT SAUDI ARABIA, ALONE IN OPEC, HAD RECOGNIZED THE DANGERS OF THE SHARP INCREASES IN PETROLEUM PRICES TO THE WORLD ECONOMY AND SAUDI ARABIA MUST BE GIVEN SUPPORT BY THE CONSUMING COUNTRIES. BUT JUST CROWING ABOUT THE INABILITY OF THE PRODUCERS TO WORK TOGETHER WAS NO WAY TO HELP HIM OR SAUDI ARABIA.

12. ACTION REQUESTED:

A. THAT AN EMBARGO BE PLACED ON PUBLIC COMMENTS ON SAUDI ARABIA'S DURING OUR BIDDING, OR ON THE IMMINENT DISSOLUTION OF OPEC;

B. THAT WE AND OUR ALLIES VERY SOON SPEAK STRONGLY TO THE MAJOR OPEC PRODUCERS ABOUT THE DANGER OF PRESENT PRICES AND SAY WE COULD NOT TOLERATE FURTHER INCREASES;

C. THAT WE ADMIT TO OPEC THAT THE PRESENT PRICES MAY, UNDER SOME DEFINITIONS, BE "JUSTIFIED" BUT THAT THE WORLD CANNOT PAY THE SUDDEN INCREASES. IF PRICES COULD BE REDUCED, WE WOULD BE WILLING TO WORK OUT A SCHEDULE FOR PRICE INCREASES OVER THE NEXT TEN YEARS, TIED TO COST OF ALTERNATE ENERGY;

D. THAT WE OFFER TO SEND A VERY SMALL DELEGATION ALONG WITH ONE OR TWO EUROPEANS (NOT JAPANESE) TO SAUDI ARABIA SOMETIME IN SEPTEMBER TO DISCUSS INFORMALLY WITH HIM AND OTHER SAUDIS (BUT NOT OTHER OPEC MEMBERS) MEANS FOR REDUCING OPEC PRICES, SCHEDULES FOR FURTHER PRICE INCREASES, AND THE ORGANIZATION OF HIS "MINI PRODUCER-CONSUMER CONFERENCE."

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## Message Attributes

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